

**The Internal Revenue Service Can Improve Its
Process for Accurately and Timely Reporting
Revenue Accounting Activities**

August 1999

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 25, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Can Improve Its
Process for Accurately and Timely Reporting Revenue Accounting
Activities

This report presents the results of our review of the management of the Internal Revenue Service's (IRS) revenue accounting activities. Specifically, we assessed whether the IRS has implemented an adequate system of internal controls at the IRS National Office level to ensure accurate and timely reporting of revenue accounting activities.

In summary, we found the IRS can improve its preparation and approval processes to ensure revenue accounting reports issued to internal and external stakeholders are accurate and timely. Further, the IRS can strengthen its process for approving indemnity agreement requests to reduce the risk of double collection for the same tax assessment.

To improve procedures for preparing and approving revenue accounting reports generated in the IRS National Office and the processing of indemnity agreement requests, we made recommendations to establish a formal review process; ensure that responsible analysts receive adequate training; ensure that all report preparation procedures contain sufficient guidance; ensure that all related report documentation is maintained in a central location; establish and enforce due dates for all time-sensitive reports; and, ensure that indemnity agreement processing and review procedures are followed.

Chief Operations Officer management responded that they are in agreement with the findings and recommendations contained in the report. Management's comments have

been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have any questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Executive Summary

The Internal Revenue Service (IRS) has implemented an adequate system of internal controls to ensure that revenue accounting transactions are recorded accurately. However, the IRS can improve its preparation and approval processes for revenue accounting reports to ensure accurate and timely reporting of revenue accounting activities to internal and external stakeholders. Further, the IRS can strengthen its process for approving indemnity agreement requests to reduce the risk of double collection for the same tax assessment.

Management Oversight and Guidance Is Sufficient to Ensure the Accurate Recording of Revenue Accounting Transactions

The accurate and complete recording of IRS revenue accounting transactions is critical to ensure factual reporting of financial data to stakeholders. To ensure that the recording of revenue accounting data is complete and accurate, the IRS provides guidance and oversight through monthly operational reviews; periodic assistance visits; the issuance of Program Letters; and, frequent communication and contact on program issues.

Management Controls Are Not Effective to Ensure that Revenue Accounting Reports Are Accurate and Timely Issued

The accuracy and timeliness of IRS revenue accounting reports are critical in ensuring both internal and external stakeholders have current financial information available to make key economic and investment decisions. However, IRS management oversight is not adequate to provide reasonable assurance that significant errors and omissions are identified and corrected before the revenue accounting reports are issued.

This ineffective control environment can be attributed to the following conditions:

- The managerial review and approval process did not identify misstatements contained in reports prior to issuance. Reports containing significant misstatements due to both calculation and transcription errors were approved and issued to internal and external stakeholders. For example, the wrong line amounts were transcribed from a source document causing refunds reported on the Federal Unemployment Tax Act (FUTA) report to be overstated by over \$3.5 billion. Further, procedures and guidelines were not always followed correctly. For example, the Exempt Organizations amount reported on the Gross Revenue Receipt report was overstated by more than \$29 million because an erroneous amount was included.

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- Procedures or guidelines did not always provide detailed instructions as to required documentation, or the organized maintenance of such documentation, to either support analyses or provide sufficient information for accurate managerial review and approval. Further, documentation maintained was not readily available or easily located.
- Procedures did not always provide specific due dates for forwarding information and reports within the IRS National Office Accounting Branch. Some reports were approved and forwarded to the appropriate parties after the established due dates.

In addition, some report analysts were new to their positions, which exacerbated the weaknesses in the internal control environment.

Management Controls Are Not Effective to Ensure that Indemnity Agreement Requests Are Properly and Timely Processed

An indemnity agreement is an arrangement between a financial institution and the IRS where the financial institution agrees to reimburse the IRS when a negotiable instrument purchased by a taxpayer has not been negotiated. If indemnity agreement requests are not processed properly, the IRS runs the risk of collecting twice for the same tax assessment. The double payment will generate a refund to the taxpayer, thus causing undue burden on the taxpayer to contact the IRS on a tax matter he or she previously thought was settled.

IRS management has not taken the appropriate steps to ensure indemnity agreement requests are developed and processed in accordance with established guidelines. Requests did not always contain appropriate authorizations, were not always properly controlled, and case files were not sufficiently documented to evidence work performed.

Summary of Recommendations

To improve procedures for preparing and approving revenue accounting reports generated in the IRS National Office and the processing of indemnity agreement requests, we made recommendations to:

- Establish a formal review process.
- Ensure that the responsible analysts receive adequate training.
- Ensure that all report preparation procedures contain sufficient guidance.
- Ensure that all related report documentation is maintained in a central location.

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- Establish and enforce due dates for all time-sensitive reports.
- Ensure that indemnity agreement processing and review procedures are followed.

Management's Response: IRS management agreed with our recommendations and plans to institute an additional level of independent review and validation of all issued reports, provide training to report analysts, update desk procedures concerning due dates and approval processes, consolidate report files, monitor the submission of reports by required due dates, and review all indemnity agreement cases for proper processing. Management's complete response to the draft report is included as Appendix VI.

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Objective and Scope

Our overall objective was to determine whether the IRS National Office had an adequate system of internal controls to ensure the accurate and timely reporting of revenue accounting activities.

This audit was initiated as part of the Treasury Inspector General for Tax Administration's Fiscal Year 1998 Annual Audit Plan. The overall objective of our audit was to determine whether the Internal Revenue Service's (IRS) National Office had an adequate system of internal controls to ensure the accurate and timely reporting of revenue accounting activities.

We conducted our review in two phases. First, we assessed the effectiveness of the IRS National Office's guidance and oversight to the service center accounting functions to ensure the accurate and timely recording of revenue accounting transactions. Second, we assessed the effectiveness of the IRS National Office's reporting of revenue information to stakeholders. We focused our scope on the preparation and processing of four key revenue accounting reports¹ and the process for approving indemnity agreement requests. Appendix IV provides a description of each revenue accounting report.

We completed audit tests in the IRS' National Office and the Atlanta and Austin Service Centers, from April 1998 through January 1999. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

¹The Federal Unemployment Tax Act (FUTA) Report, the Gross Revenue Receipts Report, the Net Tax Refund Report, and the Railroad Retirement Report.

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Background

The IRS established a National Office Accounting Branch within the office of the Director, Submission Processing, to maintain control and accountability of all IRS revenue transactions. These transactions encompass all tax related receipts and refunds processed by the IRS. Revenue transactions are recorded in the Interim Revenue Accounting Control System (IRACS), which functions as the General Ledger for revenue accounting transactions. The IRS National Office Accounting Branch is responsible for maintaining and balancing the General Ledger, and for providing guidance and oversight to the accounting functions located in each of the service centers. The IRS National Office Accounting Branch is also responsible for preparing a variety of revenue accounting reports and processing indemnity agreement requests.

The Internal Revenue Manual (IRM) ² indicates that IRS management has the primary responsibility of establishing internal controls; ensuring the internal controls are functioning as intended; continually reviewing and approving the assigned work of their staffs; and maintaining adequate documentation that describes the data input to a financial system, how it is processed, and the subsequent results. Further guidance on management controls is provided in the Budget and Accounting Procedures Act of 1950, the Federal Managers' Financial Integrity Act of 1982, the Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, and OMB Circular A-127, *Financial Management Systems*.

²IRM Section 3.0.257.0 - *Federal Managers' Financial Integrity Act*.

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Results

The IRS National Office Accounting Branch provides sufficient oversight and guidance to the service center accounting functions to ensure accurate data are entered into IRACS. However, the IRS National Office Accounting Branch management can improve its reporting and approval processes for reports generated by the IRS National Office and strengthen its process for approving indemnity agreement requests.

Management Oversight and Guidance Is Sufficient to Ensure the Accurate Recording of Revenue Accounting Transactions

Sufficient oversight and guidance are provided to ensure the accurate recording of revenue accounting transactions.

The IRS has implemented an adequate system of internal controls to ensure sufficient oversight and guidance are provided to the service center accounting functions on the recording of revenue accounting transactions.

The IRS National Office Accounting Branch management performs monthly operational reviews and provides guidance on preventive measures and corrective actions needed to resolve issues. Oversight and guidance are also provided through IRM updates and Program Letter issuances.

The IRS National Office Accounting Branch staff communicates frequently with field personnel on program issues to ensure that the recording of IRACS data are complete and accurate. They conduct assistance visits as needed, and issue National Office Alert Memoranda to brief field offices of potential or actual problems identified in other offices. Our discussions with various service center revenue accounting personnel indicated that adequate oversight and guidance is provided by the IRS National Office Accounting Branch. The IRS National Office Accounting Branch also held two training sessions

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concerning revenue accounting activities during the period of our review.

We believe the oversight and guidance provided by the IRS National Office Accounting Branch should ensure the accurate recording of revenue accounting transactions by the service centers. The accurate recording of revenue accounting transactions is critical to ensure financial data from service centers are available for reporting to stakeholders.

In addition, the results above are consistent with another audit we conducted within the Service Center Accounting emphasis area. During that audit, we found adequate procedures and controls were in place to ensure that the General Ledger and subsidiary accounts were timely and properly reconciled.³

Management Controls Are Not Effective to Ensure that Revenue Accounting Reports Are Accurate and Timely Issued

Report accuracy and timeliness is critical in ensuring stakeholders have current financial information available to make key decisions.

The IRS National Office Accounting Branch is responsible for preparing a number of different monthly revenue accounting reports which are distributed to a variety of internal and external stakeholders, such as the Bureau of Economic Analysis, Federal Reserve Banks, Joint Committee on Taxation, Financial Management Services, and the Office of Tax Analysis. The accuracy and timeliness of IRS revenue accounting reports are critical in ensuring both internal and external stakeholders have current financial information available to make key economic and investment decisions.

³See *Review of the Service's Process for Reconciling General Ledger Accounts to Subsidiary Accounts External to RACS* [Revenue Accounting Control System] (Reference Number 090700, Dated November 30, 1998).

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IRS management oversight is not adequate to provide reasonable assurance that significant errors and omissions are identified and corrected before revenue accounting reports are issued.

IRS management oversight is not adequate to provide reasonable assurance that significant errors and omissions are identified and corrected before the revenue accounting reports are issued. The ineffective control environment within the IRS National Office Accounting Branch can be attributed to the following conditions:

- The managerial review and approval process did not identify misstatements contained in reports prior to issuance. Further, procedures and guidelines were not always followed correctly.
- Procedures or guidelines did not always provide detailed instructions as to required documentation, or the organized maintenance of such documentation, to either support analyses or provide sufficient information for accurate managerial review and approval.
- Procedures did not always provide specific due dates for forwarding information and reports within the IRS National Office Accounting Branch.

In addition, some report analysts were new to their positions, which exacerbated the weaknesses in the internal control environment.

Because of these conditions, we found that some of the revenue accounting reports were not accurate, adequately supported, or issued timely. Appendix V provides a detailed listing of the specific issues identified with each report reviewed.

Critical information needed to prepare the reports was overlooked, or erroneous amounts were included.

Reports containing significant misstatements were approved and issued to internal and external stakeholders. In some instances, critical information needed to prepare the reports was overlooked or erroneous amounts were included and, therefore, the reported amounts were calculated in error. Specifically:

- The Exempt Organizations amount reported on one Gross Revenue Receipt report was overstated by over \$29 million because an erroneous amount was included.

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- Tax, interest and penalty figures reported on several Federal Unemployment Tax Act (FUTA) reports were understated by approximately \$8 million because reported subsidiary amounts were omitted.
- Total deposits on one FUTA report were overstated by approximately \$235,000 because several duplicate supplemental Statements of Transactions (SF-224) were used in calculating the total deposit amount.

Misstatements occurred because numbers were transcribed in error.

The following misstatements occurred because the numbers were transcribed in error from source documents:

- The wrong line amounts were transcribed from a source document causing refunds reported on one FUTA report to be overstated by over \$3.5 billion.
- The current tax assessment figure was transposed from a source document causing one FUTA report to be understated by \$270,000.
- Positive and negative amounts were reversed when transcribed from source documents causing the Exempt Organizations amount reported on several Gross Revenue Receipt reports to be overstated by \$10,000.

Complete documentation to support the amounts presented in various revenue accounting reports was not adequately maintained. Limited documentation was available to determine whether the Net Tax Refund Report was prepared accurately or reviewed for accuracy prior to issuance. In addition, documentation maintained in the IRS National Office Accounting Branch was not readily available or easily located. Specifically:

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The responsible report analyst was usually the only person in the IRS National Office Accounting Branch that knew where the necessary documentation should be maintained.

- The responsible report analyst was usually the only person in the IRS National Office Accounting Branch that knew where necessary supporting documentation should be maintained.
- Report files were not located in one central location within the IRS National Office Accounting Branch. Instead, files were spread throughout the IRS National Office Accounting Branch in different cabinets, and in responsible analysts' desks.
- Several attempts had to be made to collect all of the related documentation needed for us to perform our audit tests.

Some reports were approved and forwarded to the appropriate parties after the established due dates, which resulted in the reports not being issued timely to stakeholders. For three of the six months we reviewed, the Railroad Retirement Report was approved after the due date and issued three to six working days late because supporting documentation needed to prepare the report was not received timely from another section of the IRS National Office Accounting Branch.

Recommendations

1. The National Director, Submission Processing, should establish a review process that will ensure the accuracy of the reports issued, including verifying reported amounts to source documents.
2. The National Director, Submission Processing, should ensure that the responsible analysts receive adequate training and instruction for preparing the required reports and to the extent possible, maintain continuity in the analysts responsible for preparing the reports.
3. The National Director, Submission Processing, should ensure that all report preparation procedures contain sufficient guidance to either support analyses

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or provide sufficient information for accurate managerial review and approval.

4. The National Director, Submission Processing, should ensure that all reports and related supporting documentation are maintained in a central IRS National Office Accounting Branch location, and are available to everyone who requires access.
5. The National Director, Submission Processing, should establish and enforce due dates for all time-sensitive reports.

Management's Response: IRS management has taken or plans to take the following corrective actions:

1. The National Director, Submission Processing, has instituted an additional level of independent review and validation to ensure the accuracy of the reports issued.
2. The National Director, Submission Processing, will assess analyst skill levels and schedule comprehensive classroom training, On-the-Job training and Cross-training.
3. The National Director, Submission Processing, will review and update desk procedures to ensure accuracy and inclusion of due dates and approval process.
4. The National Director, Submission Processing, will consolidate fiscal year reports into a central location.
5. The National Director, Submission Processing, is establishing a matrix for all internal/external reports to monitor submission of reports on the required due dates.

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Management Controls Are Not Effective to Ensure that Indemnity Agreement Requests Are Properly and Timely Processed

An indemnity agreement is an arrangement between a financial institution and the IRS where the financial institution agrees to reimburse the IRS when a negotiable instrument purchased by a taxpayer has not been negotiated. The Internal Revenue Manual (IRM) provides specific instructions for processing indemnity agreement requests, including where the requests are to be forwarded, who is authorized to sign the requests, and what information should be included on the request. Revenue accounting procedures for indemnity agreements require that all requests be controlled and reviewed for completeness. If information needed to process the agreement request is not provided, the contact person listed on the request memorandum is called to obtain the missing information. If the information is not timely received or if the bank has issued the taxpayer another check, the request can be disallowed. Further, the IRS must contact the bank to confirm that the non-negotiated instrument is still outstanding.

Procedures and guidelines were not always followed when processing indemnity agreement requests.

Our review of the 12 indemnity agreement requests processed for the months of October 1997 through March 1998, indicated that procedures and guidelines were not always followed when processing indemnity agreement requests. Specifically:

- Eleven requests were not adequately documented to show that the bank was contacted by the revenue accounting analyst to determine if the non-negotiated financial instruments were still outstanding.
- Two requests did not have work control assignment sheets, indicating assigned and due dates. Therefore, we could not determine if the agreements were adequately controlled and processed timely by the IRS National Office Accounting Branch.

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- Two requests were not approved by the appropriate official.

Further, for one request for unclaimed funds processed for the 3d-----

3d-----

IRS National Office Accounting Branch management has not taken the appropriate steps to ensure indemnity agreement requests are developed and processed in accordance with established guidelines. By not following established procedures, the IRS runs the risk of collecting twice for the same tax assessment. The double payment will generate a refund to the taxpayer, thus causing undue burden on the taxpayer to contact the IRS on a tax matter he or she previously thought was settled.

Although the volume of indemnity agreements and the relative dollar amounts are low, we believe the risk for waste, fraud, abuse, and the potential taxpayer burden problems are significant enough for the IRS to address this issue.

Recommendation

- The National Director, Submission Processing, should improve controls over indemnity agreements to ensure that all applicable policies and procedures are followed, including a sufficient review of completed indemnity agreement requests to ensure accuracy and proper processing.

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Management's Response: IRS management plans to take the following corrective action:

The National Director, Submission Processing, will include a checksheet with each indemnity case file to document actions taken at Headquarters. All cases will be reviewed for appropriate approval signatures and evidence of delegated authority, and all issues of entitlement will be referred, as appropriate.

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Appendix I

Detailed Objective, Scope and Methodology

The overall objective of this audit was to determine whether there is an adequate system of internal controls at the Internal Revenue Service (IRS) National Office level to ensure accurate and timely reporting of revenue accounting activities. Specifically, we:

- I. Determined the effectiveness of the IRS National Office controls established to ensure the accuracy and completeness of the Interim Revenue Accounting Control System (IRACS) data received from the service centers.
 - A. Interviewed the IRS National Office Accounting Branch, Branch Chief, section chiefs, and program analysts, to determine what methods they use to reasonably ensure the accuracy and completeness of IRACS data.
 - B. Determined what reviews are conducted of service center revenue accounting operations.
 - C. Reviewed applicable guidelines and procedures to determine management responsibility for monitoring and improving internal accounting, administrative and management controls.
- II. Determined the effectiveness of the IRS National Office controls established to ensure the accurate and timely consolidation and reporting of IRACS data to internal and external stakeholders.
 - A. Interviewed the IRS National Office Accounting Branch program analysts to identify their responsibilities and the processes used to prepare various revenue accounting reports and to determine whether they complied with guidelines.
 - B. Documented our understanding of the report preparation process.
 - C. Conducted tests of the controls identified in step B to ensure effective implementation and operation.
 - D. Reviewed the following Fiscal Year 1998 reports, for the six month period of October 1997 through March 1998, to determine if accurate and timely data is reported, and sufficient documentation is obtained and maintained to support the reports.
 - 1. Federal Unemployment Tax report
 - 2. Treasury S-1 Summary report and Gross Revenue Receipt report

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- 3. Net Tax Refund report
- 4. Railroad Retirement Tax report
- 5. Indemnity agreement process
- E. Reviewed the processes and procedures for monitoring the preparation of the various reports to determine if the procedures established are adequate and effective.
- F. Identified and assessed the methods used by the service centers to ensure complete, accurate and timely reporting of data to the IRS National Office Accounting Branch.

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Appendix II

Major Contributors to This Report

Maurice Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

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Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO

Chief Operations Officer OP

Assistant Commissioner (Forms & Submission Processing) OP:FS

National Director, Submission Processing OP:FS:S

National Director for Legislative Affairs CL:LA

Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP

Office of Management Controls M:CFO:A:M

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Appendix IV

**Description of Revenue Accounting Reports Reviewed for the Period
October 1997 Through March 1998**

Report #1 – Federal Unemployment Tax Act (FUTA) Reports

There are two monthly reports prepared concerning FUTA taxes. The first report identifies the amount of federal unemployment tax that has been adjusted or reclassified for the current month, and is sent to the Department of Treasury, Office of Funds Management Branch. The second report identifies the amount of federal unemployment tax that has been assessed, deposited, reclassified and refunded for the current month, including a detailed breakdown of reclassifications by tax class. This report is sent to the Department of Treasury, Office of Tax Analysis.

Report #2 – Gross Revenue Receipt and Treasury S-1 Summary Reports

The Gross Revenue Receipt Report and the Treasury S-1 Summary report indicate the gross revenue received for the month according to tax class. The same information is included on both reports but presented in different formats. The Gross Revenue Report is distributed to various Internal Revenue Service (IRS) users, while the S-1 report is distributed to both internal IRS users, external users, such as the Department of Treasury Bureau of Economic Analysis and Federal Reserve Banks, and the Congressional Joint Committee on Taxation. Further, the information from the Gross Revenue Receipt Report is automatically downloaded to the Commissioner's Data Book. The Data Book is used to compile fiscal year-end data for the Commissioner's Annual Report which presents the state of the IRS and revenue collected.

Report #3 – Net Tax Refund Reports

The Net Tax Refund Report (NTRR) is an IRS internal report generated for each service center. The report provides the net total of confirmed refunds issued by line numbers, class of tax and type of refund for each location serviced by the service center. The Net Tax Refund Comparison Report is used to verify the accuracy of the NTRR. It reflects a current year versus prior year line-by-line comparison of the NTRR for each service center. This report is analyzed by an IRS National Office Accounting Branch analyst to determine if the refunds reported appear to be too high or low in comparison to the refunds reported the previous year. If the comparison shows a variance, the individual

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service center is contacted to determine whether a mistake has been made in the preparation of the NTRR.

Report #4 – Railroad Retirement Reports

The Railroad Retirement Report is used to advise the Department of Treasury, Financial Management Services (FMS) of the adjustments and reclassifications made to Carrier Tax collections. FMS uses this report along with the Nationwide Consolidated Deposit Ticket Classification Report to compile a railroad retirement tax worksheet that indicates adjustments that need to be made to the railroad retirement account. This information is then forwarded to the Bureau of Public Debt and the Railroad Retirement Board, where it is used to make vital investment decisions at the beginning of each month.

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Appendix V

**Audit Concerns Identified on Fiscal Year 1998 Revenue Accounting
Reports Issued Between October 1997 and March 1998**

Report #1 – Federal Unemployment Tax Act (FUTA) Report

Procedures were not followed to calculate the current tax, interest and penalty figures for three of the six monthly reports we reviewed, which resulted in a net underreporting of \$8,004,711. Also, for the month of January 1998, the current tax assessment figure from the Summary of Assessment Certificates Issued Report was transposed on the report. Table A illustrates the significance of these misstatements.

Table A – FUTA Understatement

	<i>Reported Amount</i>	<i>Audit Amount</i>	<i>Difference</i>
December 1997	\$62,529,770	\$64,825,425	\$(2,295,655)
January 1998	* \$55,636,383	\$59,410,957	\$(3,774,574)
March 1998	\$4,023,558,877	\$4,025,493,359	\$(1,934,482)
Total Understatement	\$4,141,725,030	\$4,149,729,741	\$(8,004,711)
* includes transposition error of \$270,000			

Note: Months not listed showed a \$0 difference.

For the month of December 1997, several duplicate supplemental Statements of Transactions (SF-224) from different service centers were used when calculating the total deposit amount for reporting purposes. This resulted in a total deposit overstatement of \$235,070. Tables B-1 and B-2 illustrate the significance of this duplication.

Table B-1, Duplicate Supplemental SF-224s

<i>Service Center</i>	<i>Duplicate Supplemental 1</i>
Austin	\$29,348
Cincinnati	\$86,130
Memphis	\$119,592
Total	\$235,070

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Table B-2, FUTA Deposit Overstatement for December 1997

	<i>Reported Amount</i>	<i>Audit Amount</i>	<i>Difference</i>
December 1997	\$32,686,698	\$32,451,628	\$235,070

When determining the Refunds amount for the month of January 1998, the wrong figures were transcribed from the Form 2162, Summary of Assessments Certificates Issued Report. Instead of using the line item amount for FUTA principal and interest, the analyst transcribed the total amount for the column. This resulted in an overstatement of \$3,525,382,107 as shown in Table C.

Table C – FUTA Refunds Overstatement

	<i>Reported Amount</i>	<i>Audit Amount</i>	<i>Difference</i>
Principal	\$3,414,359,811	\$638,965	\$3,413,720,846
Interest	\$111,732,120	\$70,859	\$111,661,261
Total Overstatement	\$3,526,091,931	\$709,824	\$3,525,382,107

Report #2 – Gross Revenue Receipt and Treasury S-1 Summary Reports

For four of the six months we reviewed, the year-to-date exempt organization amounts were reported incorrectly. The October 1997 Gross Revenue Receipt Report was overstated by over \$29 million because an erroneous amount was included in the reported amount. In addition, the amounts reported for December 1997, January 1998 and February 1998, were overstated by \$10,000 because positive and negative amounts were reversed when transcribed from the Non-Masterfile Report of U.S. Internal Revenue Receipts and the Report of U.S. Internal Revenue Receipts – Posted Transactions Report. These errors resulted in a total overstatement of \$29,293,982 as shown in Table D.

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Table D – GRRR Exempt Organization Overstatement

<i>Month</i>	<i>Reported Amount</i>	<i>Audit Amount</i>	<i>Difference</i>
October	* \$51,586,500	\$22,302,596	\$29,283,904
December	+ \$156,837,978	\$156,830,899	\$7,079
January	+ \$192,044,303	\$192,037,925	\$6,378
February	+ \$212,774,379	\$212,777,758	(\$3,379)
TOTAL	\$613,243,160	\$583,949,178	\$29,293,982
* Includes erroneous amount			
+ Includes positive/negative transcription errors			

Note: Months not listed showed a \$0 difference.

Report #3 – Net Tax Refund Report

Only limited documentation was available to determine whether the Net Tax Refund Report (NTRR) was prepared accurately or reviewed for accuracy prior to issuance. The analyst responsible for preparing the report indicated that he follows the Internal Revenue Manual procedures to analyze the service center NTRRs. This analysis involves comparing current amounts reported to the amounts reported the previous year; any significant variations are discussed with the affected service center and adjusted accordingly. However, neither the report comparison analysis nor the related discussions with service center representatives were routinely documented.

Report #4 – Railroad Retirement Report

Revenue accounting procedures for the Railroad Retirement Tax Report require that the report be mailed to the Department of the Treasury, Financial Management Services by the 15th day of the month but no later than the 20th day of the month. The Railroad Retirement Tax reports are prepared based on information in the Nationwide Consolidated Deposit Ticket Classification report. For four of the six months we reviewed, the Railroad Retirement Tax Report was approved after the 20th day of the month and issued three to six working days after the due date. In three of those instances, the Revenue Accounting Control Section printed and forwarded the required Nationwide Consolidated Deposit Ticket Classification reports to the Accounting & Customer Reports Section on or after the 20th of the month.

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Appendix VI

Management's Response to the Draft Report



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 17, 1999

OFFICE OF TREASURY
INSPECTOR GENERAL
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1999 AUG 17 P 3:31
199908-4AVGQWDA
FOR TAX ADMINISTRATION

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Charles O. Rossotti *COR*
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report – The Internal Revenue Service Can Improve
Its Process for Accurately and Timely Reporting Revenue
Accounting Activities

Thank you for the opportunity to comment on your draft report entitled "The Internal Revenue Service Can Improve Its Process for Accurately and Timely Reporting Revenue Accounting Activities," dated May 1999. We are in agreement with the report's findings and recommendations.

We believe the efforts underway will enable the Internal Revenue Service to improve its Revenue Accounting reporting process. We have developed and instituted additional management controls for the review and validation of all financial reports issued to internal and external customers. This review process will ensure the accuracy and timeliness of all required Revenue Accounting reports. Supporting documentation will be filed with all reports.

IDENTITY OF RECOMMENDATION/FINDING #1

The National Director, Submission Processing, should establish a review process that will ensure the accuracy of the reports issued, including verifying reported amounts to source documents.

ASSESSMENT OF CAUSE(S)

Based on errors found on accounting monthly reports, it has been determined that the current review process is not adequate.

CORRECTIVE ACTIONS

To ensure the accuracy of the reports issued, Submission Processing has instituted an additional level of independent review and validation to conform to accounting standards. During this review, reported amounts will be verified prior to submission for managerial approval. All supporting documentation will be filed with the reports in the event of a subsequent audit.

The Internal Revenue Service Can Improve Its Process for Accurately and Timely Reporting Revenue Accounting Activities

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IMPLEMENTATION DATE:
COMPLETED June 25, 1999

RESPONSIBLE OFFICIAL(S)
Chief Operations Officer
Assistant Commissioner (Forms and Submission Processing)
National Director, Submission Processing

CORRECTIVE ACTION(S) MONITORING PLAN
The Accounting Branch Chief will report on the status of the mandatory review process at the monthly Operational Review conducted by the National Director, Submission Processing.

IDENTITY OF RECOMMENDATION/FINDING #2
The National Director, Submission Processing, should ensure that the responsible analysts receive adequate training and instructions for preparing the required reports and to the extent possible, maintain continuity in the analysts responsible for preparing the reports.

ASSESSMENT OF CAUSE(S)
Some report analysts were new to their positions, which exaggerated the weaknesses in the internal control environment.

CORRECTIVE ACTIONS
Management will assess the skills of each analyst assigned a new responsibility for preparing a required report. Comprehensive classroom training will be scheduled as soon as available with the Financial Management Service's Center of Applied Financial Management. This formal training will be supplemented by ongoing On-the-Job-Training and feedback from reviews. Cross-training will also be conducted to ensure continuity by December 31, 1999.

IMPLEMENTATION DATE:
PROPOSED December 31, 1999

RESPONSIBLE OFFICIAL(S)
National Director, Submission Processing

CORRECTIVE ACTION(S) MONITORING PLAN
Management will ensure adequate training is funded and provided to all responsible Accounting Branch personnel by making this a part of the ongoing Submission Processing Division training plan.

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IDENTITY OF RECOMMENDATION/FINDING #3

The National Director, Submission Processing, should ensure that all report preparation procedures contain sufficient guidance to either support analysis or provide sufficient information for accurate managerial review and approval.

ASSESSMENT OF CAUSE(S)

Reports containing significant misstatements were approved and issued to internal and external stakeholders. In some instances, critical information needed to prepare the reports was overlooked or erroneous amounts were included and, therefore, the reported amounts were calculated in error.

CORRECTIVE ACTIONS

Desk procedures are currently being reviewed and updated to ensure accuracy and inclusion of due dates and approval process. Timeline for completion is scheduled for August 1, 1999.

IMPLEMENTATION DATE:

PROPOSED August 1, 1999

RESPONSIBLE OFFICIAL(S)

National Director, Submission Processing

CORRECTIVE ACTION(S) MONITORING PLAN

Followup for corrective action will be conducted during the August 1999 Operational Review conducted by the National Director, Submission Processing.

IDENTITY OF RECOMMENDATION/FINDING #4

The National Director, Submission Processing, should ensure that all reports and related supporting documentation are maintained in a central National Office Accounting Branch location and are available to everyone who requires access.

ASSESSMENT OF CAUSE(S)

Files were spread throughout the National Office Accounting Branch in different cabinets and desks of analysts.

CORRECTIVE ACTIONS

Fiscal year reports will be consolidated into a central location.

IMPLEMENTATION DATE:

PROPOSED December 1, 1999

RESPONSIBLE OFFICIAL(S)

National Director, Submission Processing

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CORRECTIVE ACTION(S) MONITORING PLAN

Management will ensure Fiscal Year reports will be consolidated into one area within the branch for audit purposes beginning Fiscal Year 1999. Followup for corrective action will be conducted during the November 1999 Operational Review conducted by the National Director, Submission Processing. A document is being prepared which identifies interim locations of current Fiscal Year reports to ensure our ability to produce all relevant reports and documentation at any time for audit.

IDENTITY OF RECOMMENDATION/FINDING #5

The National Director, Submission Processing, should establish and enforce due dates for all time-sensitive reports.

ASSESSMENT OF CAUSE(S)

A reporting structure did not exist to ensure timely delivery of reports to stakeholders.

CORRECTIVE ACTIONS

A matrix is being established for all internal/external reports to monitor submission of reports on the required due dates. Review and subsequent updates to the desk procedures will include mandatory completion dates.

IMPLEMENTATION DATE:

PROPOSED August 1, 1999

RESPONSIBLE OFFICIAL(S)

National Director, Submission Processing

CORRECTIVE ACTION(S) MONITORING PLAN

Management will ensure reports are issued on a timely basis. Followup for corrective action will be conducted during monthly Operational Reviews conducted by the National Director, Submission Processing.

IDENTITY OF RECOMMENDATION/FINDING #6

The National Director, Submission Processing, should improve controls over indemnity agreements to ensure that all applicable policies and procedures are followed, including a sufficient review of complete indemnity agreement requests to ensure accuracy and proper processing.

ASSESSMENT OF CAUSE(S)

Low frequency and high complexity caused some requests to not be adequately documented, controlled, processed, and approved. Accounting Branch management has not taken the appropriate steps to ensure indemnity agreement requests are developed and processed in accordance with established guidelines.

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CORRECTIVE ACTIONS

History sheets are prepared by the service center caseworkers for individual cases. To record actions within Headquarters, we will include a checksheet with each indemnity case file to document actions taken at Headquarters.

We will continue to control all indemnity agreements through our automated system, ensure manual controls are in place, review all cases for appropriate approval signature and evidence of delegated authority, and refer all issues of entitlement, or those claims involving state law, to Chief Counsel for assistance.

IMPLEMENTATION DATE:
PROPOSED October 1, 1999

RESPONSIBLE OFFICIAL(S)
National Director, Submission Processing

CORRECTIVE ACTION(S) MONITORING PLAN

Management will ensure all corrective actions are implemented. The status of outstanding indemnity agreements will be covered in the monthly Operational Reviews beginning October 1999.

To the best of our knowledge and belief, the subject report and our response to the subject report do not contain any material covered by the Freedom of Information Act, the Privacy Act, or any other law/regulation that would prohibit its dissemination to the public.

If you have any questions, please contact Barbara A. Jenkins, National Director, Submission Processing, at (202) 283-1000 or a member of your staff may call Gilbert Buentello at (202) 283-0225.